



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

SUBJECT: See below

DATE: March 10, 2004

Approved

Date

Council District: Citywide

**SUBJECT: CONTINUATION AGREEMENT WITH SAN JOSE DISTRIBUTION
SERVICES TO OPERATE THE FOREIGN TRADE ZONE**

RECOMMENDATION

Approval of a Continuation Agreement to the Foreign Trade Zone (FTZ) Agreement with San Jose Distribution Services to continue the term of the agreement to June 30, 2004 with no change to any other terms and conditions of the agreement.

BACKGROUND

On February 18, 1997, Council approved the Foreign Trade Zone operating agreement with San Jose Distribution Services. The company has contracted with the City since 1982 to operate the General Purpose Foreign Trade Zone in San Jose. Since the agreement was executed, the City's Foreign Trade was relocated to its existing site at 2055 South Seventh Street.

The City received Foreign Trade Zone designation in 1974 from the U.S. Department of Commerce. The Foreign Trade Zone is designated territory with the U.S. that is outside the jurisdiction of the U.S. Customs Service. Merchandise stored, manufactured or assembled in the Foreign Trade Zone is considered to be in international commerce. This allows companies or individuals importing products into the Foreign Trade Zone to delay, reduce or eliminate the payment of Federal Customs duties. The Foreign Trade Zone is considered a public utility, which operates to benefit the greater community.

Established in 1934 by an Act of Congress, the Foreign Trade Zone enables businesses in the U.S. to compete more effectively in the global marketplace. San Jose was the 18th city in the nation to receive the Foreign Trade Zone designation. The San Jose Foreign Trade Zone serves

businesses and individuals in San Jose and the counties of Santa Clara, San Benito, Santa Cruz, and Monterey.

ANALYSIS

The Agreement with San Jose Distribution Services was for five years, with an option for the operator to extend the agreement an additional two-years. During the seven years of the agreement, the City has worked closely with San Jose Distribution Services on many aspects of the Foreign Trade Zone, including marketing and applying to the federal government for modifications to the boundary of the Zone. During the recently completed federal fiscal year, over \$21 million in activity took place within San Jose's Foreign Trade Zone, which represented a significant increase from the previous year.

While the number of local companies with buildings and expertise to operate a Foreign Trade Zone is very limited, it has been nearly eight years since the City provided a Request for Qualifications for a Foreign Trade Zone operator.

Approving the Continuation Agreement will allow San Jose Distribution Services to continue to operate the Foreign Trade Zone and facilitate international trade and commerce in the San Jose area while the City prepares a Request for Qualifications for an operator of the Foreign Trade Zone and enters into a contract with the operator.

PUBLIC OUTREACH

The Office of Economic Development held discussions with San Jose Distribution Services, the operator of the City's General Purpose Zone.

COST IMPLICATIONS

San Jose Distribution Services, as operator of the FTZ, pays to the City's General Fund an annual fee of \$350.00, plus an additional annual fee of \$100.00 for each customer utilizing the Zone five times or more during the annual reporting period.

CEQA

Not a Project.

Honorable Mayor and City Council

March 10, 2004

Subject: Continuation of Foreign Trade Zone Agt.

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COORDINATION

The Continuation Agreement to the Foreign Trade Zone Operating Agreement has been coordinated with the Office of the City Attorney.

PAUL KRUTKO

Director of Economic Development

